

OIL & GAS

2022

WRAP-UP REPORT



2023

FORWARD LOOK

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INTRODUCTION



We are excited to present the sixth edition of our Annual Oil and Gas Report (this “**Report**”) which focuses on the key events of 2022 and the outlook for 2023. If we were to pick a word for 2022, it would be “opportunities.” From increased regulatory activity in the wake of the passage of the PIA, to the unveiling of NNPC Limited and the rebound in global oil prices, the Nigerian oil and gas industry in 2022 was eventful.

Also noteworthy are the ongoing divestments of upstream assets by the IOCs, the commencement of the Deep Offshore Mini-Bid Round by the NUPRC with seven blocks on offer and the successful discovery of oil in commercial quantities in the northern part of the country, lending a further boost to Nigeria’s drive to increase its reserves. These and more, are covered in this Report.

We are happy to be industry game-changers, with our involvement in transactions that were the first of its kind, complex, innovative and market defining. We have continued to support NNPC Limited on its transition journey – encompassing the corporatization and reorganization of the Corporation and its subsidiaries and the knotty path of transferring the assets, interests and liabilities of the Corporation to NNPC Limited. We are also advising NNPC Limited and its exploration and production subsidiary, NNPC E & P Limited on a first-of-its-kind development of two oil and gas assets located in the Kolmani river

area of Northern Nigeria. We also successfully concluded the landmark exit of the Addax Group from Nigeria, with the relinquishment of Addax’s rights in the PSCs relating to OMLs 123, 124, 126 and 137 to NNPC Limited.

True to our testament as market leaders, our focus as a Firm in 2022 was to deepen our market reach, build strategic alliances and more importantly, provide more value to our clients. In furtherance of this, we successfully implemented various strategies aimed at achieving these objectives, including launching our London Office on 28 September 2022, thus strengthening our ability to more efficiently deliver cross-border and transactional services. As a full-service law firm with over six decades of demonstrable capability, our renewed commitment is to continue to provide premium service to our clients across Africa, and globally.

Looking forward, 2023 holds a positive outlook as the Nigerian oil and gas industry continues to open up to investments. From the Oil and Gas Team here at Olaniwun Ajayi LP, we are grateful for the opportunities that 2022 presented and even more so to our clients, the very reason we are here. We remain true to our brand promise and will keep striving to do even more to support you.

Thank you.



Tominiyi Owolabi
Managing Partner

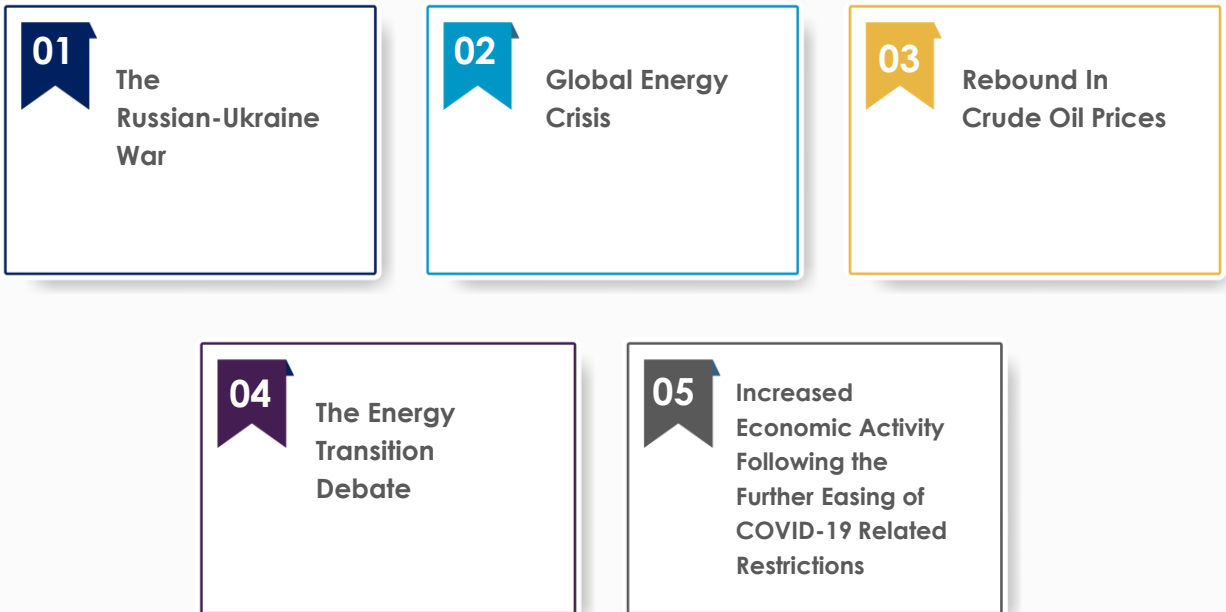


PART I:

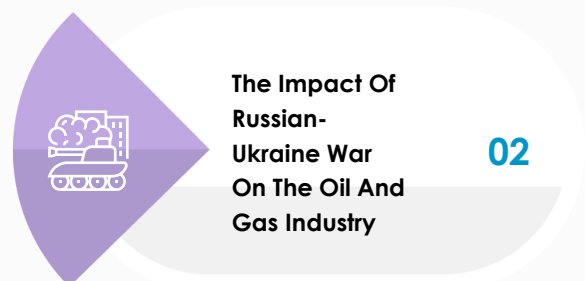
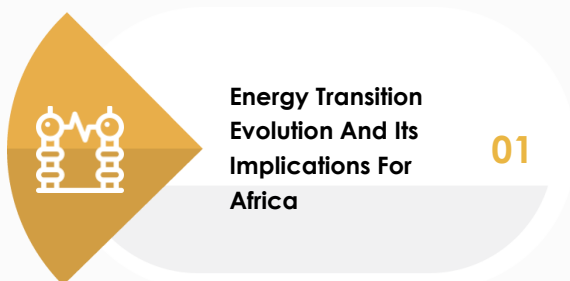
The Global Oil and Gas Scene 2022



The global oil and gas industry in 2022 was shaped by several defining events including:



In this part, we discuss



Energy Transition Evolution: Implications for Africa

Global consciousness for energy transition continues to gain momentum each passing year, with investors prioritizing their environmental, social and governance (ESG) metrics. In 2022, Energy Tracker Asia estimated that with current emissions of approximately 42 gigatonnes of CO₂ per year, the world's remaining carbon budget will be depleted in 11.5 years. Public pressure, falling renewable energy costs and improving technology are also driving the change from fossil fuels to more sustainable energy sources - the aim being to reduce energy-related greenhouse gas emissions through decarbonization, and to slash global CO₂ emissions.

For African producing nations who have been caught in the middle of the energy transition debate, the Conference of the Parties (COP27) which held in November 2022 and focused on climate change mitigation, adaptation, finance, and collaboration, may have provided some respite with conversations around “a just transition that takes into account the development needs of countries, communities, and groups most affected by the climate crisis”. Some of the key outcomes of COP27 with a direct impact on Africa include:

01

ESTABLISHMENT OF THE LOSS AND DAMAGE FUND

The purpose of the fund is providing financial assistance to nations most vulnerable and impacted by the effects of climate change including African countries. Modalities around contributions to the fund, beneficiaries of the fund etc., would hopefully be addressed by COP28.

02

CLIMATE FINANCE

US\$4 to \$6 trillion a year needs to be invested in renewable energy until 2030, including investments in technology and infrastructure. According to the United Nations Environment Programme, the UN Secretary-General unveiled a US\$ 3.1 billion plan to ensure everyone on the planet is protected by early warning systems in the next five years.

03

AFRICAN CARBON MARKET INITIATIVE (ACMI)

The launch of ACMI at the COP27 is aimed at expanding Africa's participation in voluntary carbon trading across Africa, support the growth of carbon credit production in Africa to 300 million carbon credits annually by 2030 and 1.5 billion credits by 2050, and unlock over US\$6 billion in revenue within Africa by 2030 and over US\$120 billion by 2050.

African oil and gas producing nations' energy transition story can perhaps not be completely divorced from their push to leverage on traditional energy sources such as gas-to-power solutions, which are potentially cleaner energy sources compared to diesel oil and or heavy fuel oil, for instance.

For Nigeria with abundant natural gas reserves, natural gas will serve as a transition fuel and a crucial part of its energy transition drive. With the launch of Nigeria's energy transition plan in 2022, Nigeria proposes to double its gas production by 2060 with increased supply across Africa to meet the continent's rising natural gas demand which is projected to rise by 82% by 2050. The energy transition plan also recognizes the complementary role of other energy sources such as renewables which can provide nearly 60% of Nigeria's energy demand by 2050, saving 40% in natural gas and 65% in oil.

Impact of Russian-Ukraine War on the Oil & Gas Industry

The effects of Russia's invasion of Ukraine in February 2022, have continued to ripple across the globe with a series of economic and trade sanctions imposed on Russia, including the European Union's proposal to phase out the region's purchase of Russian crude oil.

Given Russia's status as the 2nd largest global exporter of crude oil and largest natural gas exporter, these sanctions resulted in disruptions in the oil and gas global supply chain, with bulk purchasers of petroleum from Russia resorting to alternative suppliers. Other key impacts of the supply disruptions include:



Increase in crude oil and natural gas prices



adoption of measures by certain European countries in direct contradiction of earlier commitments to transition from coal to cleaner sources of energy by 2030



upward trend in prices of petroleum products across several African countries including Nigeria



inflationary trends in agricultural produce triggered by shortfalls in fertiliser derived from natural gas imported from Ukraine and Russia



On the positive side, the reduced dependency on Russian gas has resulted in renewed emphasis on oil and gas investments in some parts of Africa and the Middle East in 2022. With no end in sight to the Russia-Ukraine crisis, it is expected that the West will continue to explore further investments in oil and gas producing countries in Africa and the Gulf to bump up production levels to meet their petroleum needs.

Part II:

The Nigerian Oil and Gas Scene 2022



Despite the constraints to production in the upstream sector on account of factors such as crude oil theft and pipeline vandalism as well as constrained investments in the upstream sector, there were a number of developments in 2022, that signaled a positive outlook for the Nigerian oil and gas industry.

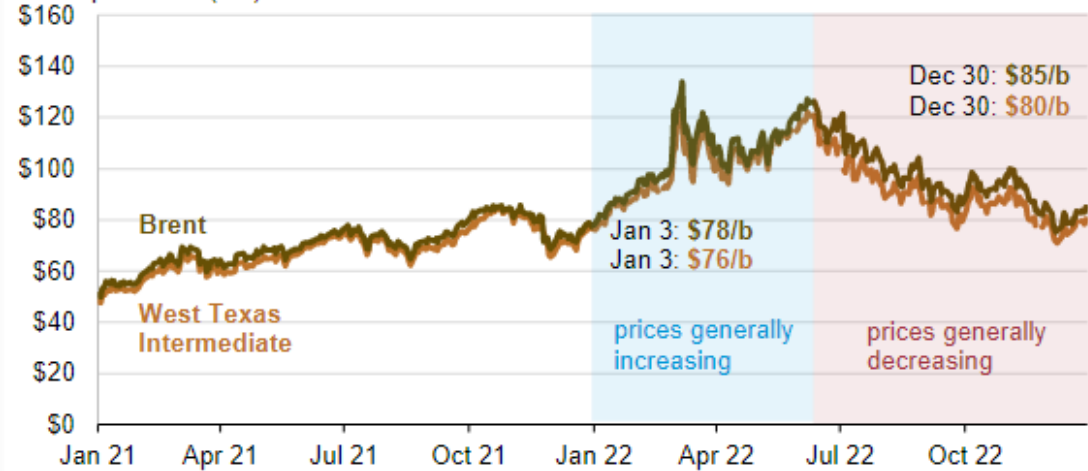
This part of the Report covers some of the key trends and developments across the three main sectors in the Nigerian oil and gas industry:



Nigeria's Production Crisis Amid the Crude Oil Price Boom

Daily spot crude oil prices (Jan 3, 2021–Dec 30, 2022)

dollars per barrel (\$/b)



eia

Crude oil prices in 2022 exceeded 2021 predictions, with the Brent crude oil spot price averaging \$100/b and the WTI spot price averaging \$95/b, largely on account of the Russian/Ukraine conflict.

Nigeria unfortunately, did not benefit significantly from the crude oil price surge due to domestic factors such as crude oil theft, pipeline vandalism and inadequate infrastructure, resulting in low production. Particularly, Nigeria failed to meet its OPEC quota of 1.8million bpd in 2022 as crude oil production averaged about 1million bpd for the first time in years. Consequently, Nigeria's foreign reserves depreciated by about US\$3.12 billion in ten months.

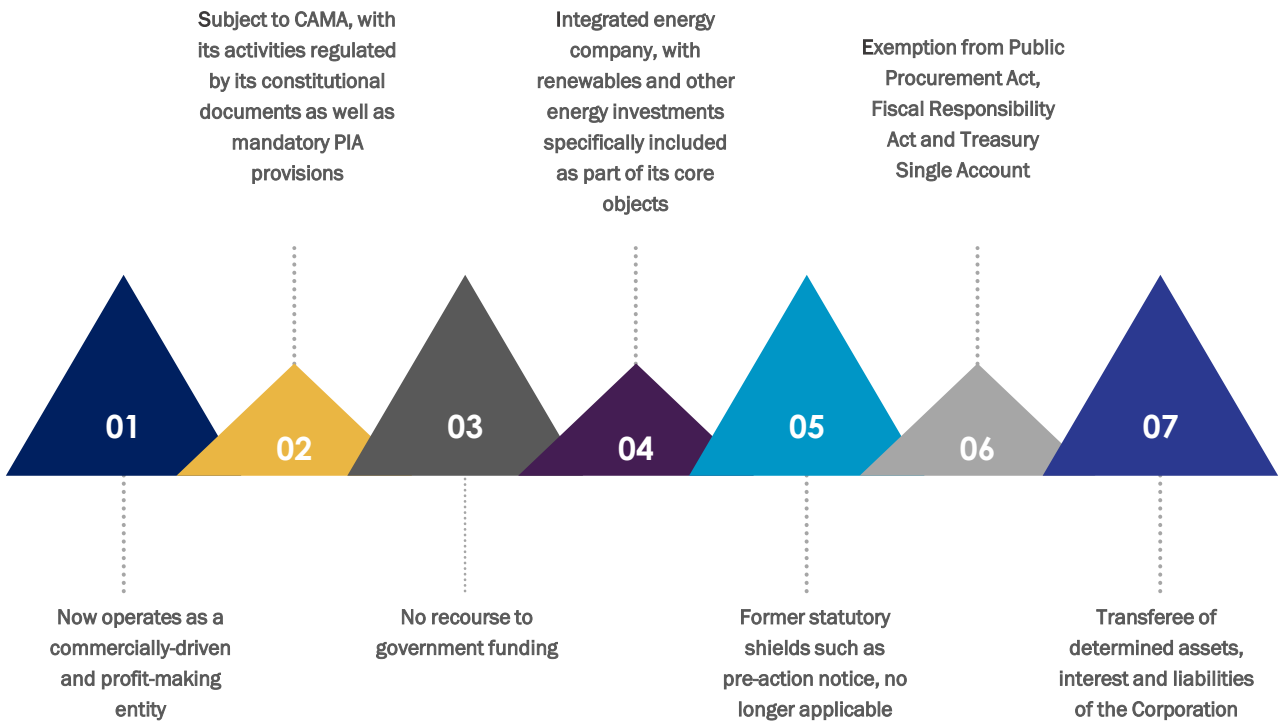
For consumers of petroleum products in Nigeria, the increase in crude oil prices translated to a rise in the cost of refined petroleum products including Premium Motor Spirit (PMS) and Automotive Gas Oil (AGO), at least, unofficially. While the effect of the increased PMS price on consumers was partly cushioned by the ongoing subsidy policy of the Federal Government of Nigeria (FGN), this conversely increased the FGN's subsidy expenditure to a monthly average of about N500billion.

Nigeria failed to meet its OPEC quota of 1.8million bpd in 2022 as crude oil production averaged about 1 million bpd for the first time in years



The Metamorphosis of the Corporation into NNPC Limited

In September 2022, NNPC Limited, the successor of the Corporation, was unveiled at a landmark event in Abuja, Nigeria by President Muhammadu Buhari. This marked a new era for Nigeria's national oil company, which although still 100% government owned, would however now operate as a fully commercialized entity. We have set out in the image below, a snapshot of some of the key features of NNPC Limited on account of the transition.

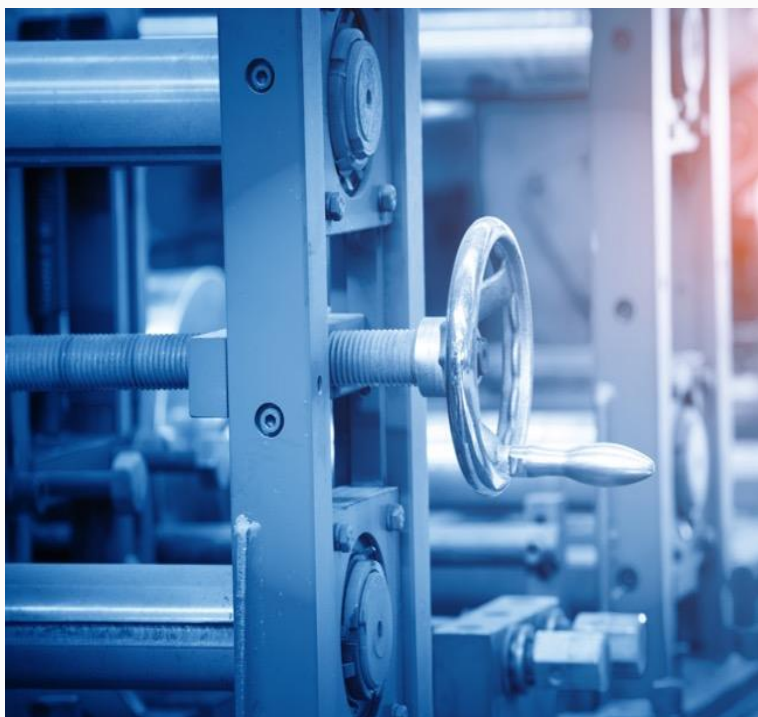


To manage the transition process, NNPC Limited was appointed pursuant to the PIA as an agent of the Corporation. Hence, while the transition was underway, NNPC Limited was empowered to deal with the assets, interests and liabilities of the Corporation including managing contractual arrangements with third parties accordingly. Upon completion of the transfer of the assets, interest and liabilities of the Corporation to NNPC Limited, it would become vested with the rights, interest and obligations under those contractual arrangements.

With the transition, NNPC Limited has now been repositioned to operate within the matrix of the rules of the market, whilst also meeting certain strategic objectives under the PIA. The cessation of government funding also means that NNPC Limited is expected to amongst other things, develop more innovative financing options for its petroleum operations, although it is still subject to certain restrictions on account of it being government owned such as the World Bank Negative Pledge.

NNPC Limited is also undertaking a revalidation of the business model for its operations, even as it ventures into renewables and other energy investments as part of its core objects. This equally applies to the operations of its subsidiaries across the entire oil and gas value chain.

NNPC Limited's First Exploits



NNPC Limited also exercised its pre-emption rights under a JOA, in the sale of a 40% stake in Chevron-operated 6,200 bpd OMLs 86 and 88

One of NNPC Limited's first major transaction was the take-over of operations of OMLs 123, 124, 126 and 137 with the execution of a transfer, settlement and exit agreement with the Addax Group. With the take-over, the Addax Group effectively exited Nigeria.

Further, in August 2022, NNPC Limited renewed certain PSCs with respect to OMLs 128, 130, 132, 133 and 138. Based on indications from NNPC Limited, all of the renewed PSCs would continue to be operated under the Petroleum Act, save for OML 130 and its PSC which were renewed under PIA terms.

This means that while OML 130 will be subject to the PIA regime, OMLs 128, 132, 133 and 138 will continue to be subject to the applicable pre-PIA legislations, such as the Petroleum Act, Petroleum Profit Tax Act, Oil Pipelines Act and Deep Offshore and Inland Basin Production Sharing Contracts Act. Notably, the basis for the OML 130 exception was not provided by NNPC Limited.

Away from the PSCs, NNPC Limited also exercised its

pre-emption rights under a JOA, to acquire a 40% stake in the Chevron-operated 6,200 bpd OMLs 86 and 88, thereby increasing its stake in those upstream assets.

Notably, to shore up its capacity to supply downstream products, NNPC Limited has embarked on some expansion projects, with a landmark example being its acquisition of the downstream assets of OVH Energy, placing NNPC Limited as the company with the highest retail petrol stations in Africa. This is in line with NNPC Limited's statutorily-imposed objects of acting as supplier of last resort on behalf of the FGN, for the purpose of ensuring adequate supply and distribution of PMS for a period which is expressed under the PIA to not exceed six months.

Regulatory Developments

Changes in legal and regulatory landscapes are often characterized by some degree of uncertainty on the exact scope of the new legal regime, thus necessitating the issuance of regulations and guidelines to amplify aspects of the principal legislation and spell out details relating to implementation. In the course of 2022, the NUPRC issued regulations on various subjects. The NUPRC and the NMDPRA have also published several draft regulations on their respective websites and held stakeholder engagements on these released draft regulations.



Upstream Regulation Issued by NUPRC

01

Nigerian Upstream Petroleum Host Communities Development Regulations, 2022 (Host Communities Regulations)

- ◆ The host communities development provisions in the PIA has been a focal topic of discourse amongst stakeholders in the Nigerian oil and gas industry;
- ◆ The PIA requires the holders of PMLs, PPLs and owners of designated facilities to establish a host communities development trust;
- ◆ The Host Communities Regulations sets out amongst others, the framework for the establishment and administration of the host communities development trust;
- ◆ Each licensee and lessee is required to make an annual contribution to a trust fund established for the benefit of the host communities in an amount equal to 3% of each licensee and lessee's actual operating expenditure for the preceding year from operations affecting the host communities.

02

Conversion and Renewal (Licences and Leases) Regulations 2022 (Conversion Regulations)

The Conversion Regulations establish the procedure for amongst others, the conversion of OPLs and OMLs into PPLs and PMLs respectively and the renewal of OMLs.

03

Petroleum Royalty Regulations 2022

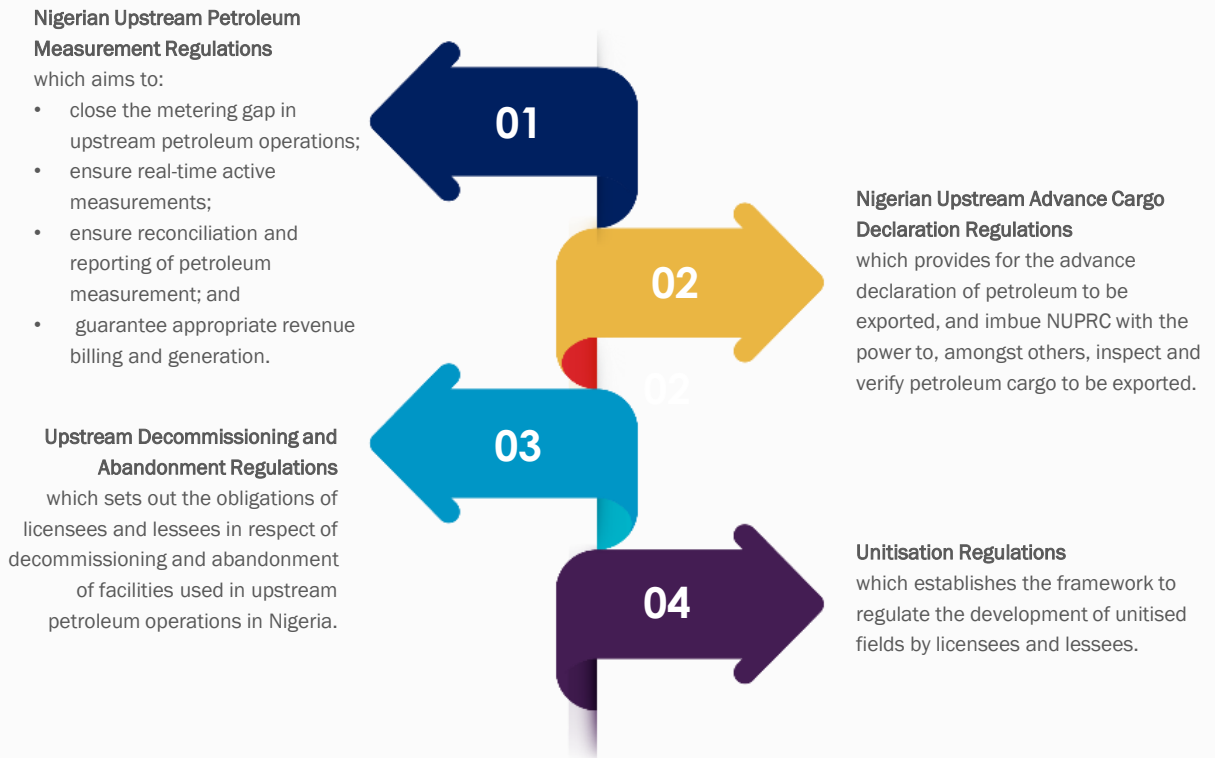
The Petroleum Royalty Regulations establish the procedure for the determination of royalty payable and the administration of the royalty regime under the PIA.

04

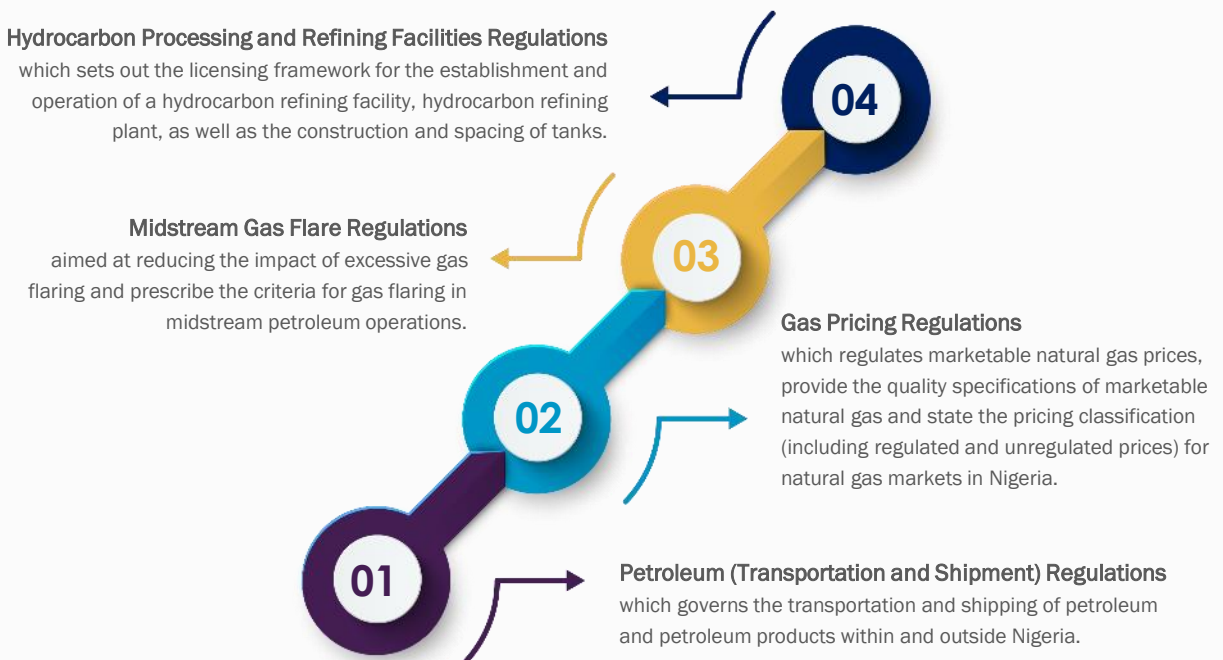
Domestic Gas Delivery Obligation Regulations 2022 (Gas Delivery Regulations)

The Gas Delivery Regulations lay out the framework for the NUPRC to prescribe and allocate domestic gas delivery obligations amongst lessees, pursuant to the PIA. The NUPRC utilises a national supply curve to assign domestic gas delivery obligations to lessees.

Draft Regulations Published by the NUPRC



Draft Regulations released by the NMDPRA



Aftermath of 2020 Marginal Field Bid Round

With the completion of the 2020 marginal field bid rounds, 57 marginal fields were awarded to about 80 awardees in 2021. In line with the PIA which contemplates that non-producing fields which had been declared as marginal fields prior to 1st January 2021 would be converted to PPLs, the NUPRC awarded PPLs in respect of 41 fields to 161 awardees who had met the conditions for the license. The PIA would be applicable to these PPL holders, including the new fiscal regime which introduces 15% hydrocarbon tax for PPL holders and Companies Income Tax of 20% for companies with turnover between NGN25 million to NGN100 million, and 30% for companies with higher turnovers.

The emergence of new PPL holders on the back of marginal field bid round, presented some upsides for the industry which continued on to 2022 and beyond, as follows -

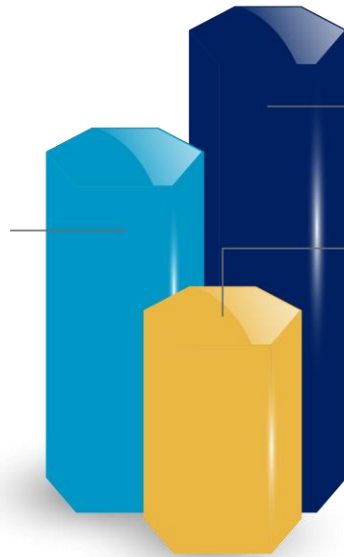


Crude Oil Theft and Vandalism

The Nigerian oil and gas industry witnessed its worst incidence of crude oil theft and pipeline vandalism in 2022.

Snapshot of the Crisis:

Volumes lost, rose from
103,000 barrels per
day in 2021 to over
400,000 barrels per
day in 2022



Authorities report that more than
US\$3.3 billion has been
lost to crude oil theft since 2021

Of the **141 million** barrels of
oil produced in the first quarter of
2022, NNPC Limited reported that
only about **132 million**
barrels were received at the export
terminals due to crude oil theft and
vandalism

As a result of this menace, in April 2022, Shell Petroleum Development Company Limited (SPDC) declared force majeure in respect of the Trans Niger Pipeline which transports crude oil from production fields to the Bonny terminal for export, in effect, preventing the transportation of about 180,000 bpd of crude through that channel. SPDC and Eni SpA as the operators of the Forcados, Bonny and Brass terminals also declared force majeure and closed down the terminals due to theft and vandalism which resulted in a halt in production in the affected areas amidst fear of significant loss of crude oil in transit. The closure of the Forcados terminal disrupted the supply of about 258,000 barrels of crude oil while the closure of the Brass terminal led to deferred production of about 25,000 barrels.

“...Bonny and Brass terminals also declared force majeure and closed down the terminals due to theft and vandalism which resulted in a halt in production in the affected areas amidst fear of significant loss of crude oil in transit.”

Key Initiatives by The FGN to Address the Crude Oil Theft

In an attempt to combat this problem, the FGN set up the following initiatives:



Special Investigative Panel on Oil Theft

The panel had a mandate to, amongst others, identify persons involved in the criminal activities, assess the effectiveness of the security architecture in addressing the menace and make necessary recommendations on how to address the issues identified.



Improved Surveillance

Private security contractors were engaged to provide community surveillance within the affected areas. The FGN also set up a command-and-control centre for round the clock monitoring of petroleum operations, vessel movements and ship-to-ship activities within the Nigerian Exclusive Economic Zone.



Regulations

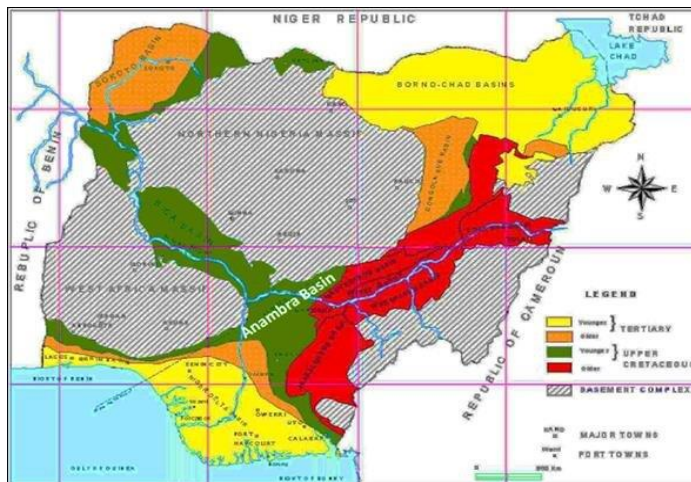
The NUPRC has introduced several regulations in a bid to curb crude oil theft such as the Nigerian Upstream Petroleum Measurement Regulations which is aimed at addressing diversions of crude oil by requiring the installation of meters and measurement of crude oil at several points from production to export. The Nigerian Upstream Advance Cargo Regulations is also for the purpose of tracking crude oil being exported by making sure the volumes exported match with volumes produced. These regulations are currently being debated by stakeholders.

Some of the measures put in place have started to yield results as almost 60 illegal connections were identified in Delta and Bayelsa States and about 4km of illegal pipeline connection was discovered in the Forcados area of Delta State. Nigeria's crude oil production also rose in the last two months of 2022 in part due to the measures to safeguard the transportation of crude, the reopening of the Forcados oil terminal as well as the partial operation of the Trans-Niger Pipeline.



Frontier Exploration

To promote the exploration of frontier basins in Nigeria (i.e., basins where hydrocarbon exploration activities have not been carried out or previous commercial discovery of oil and gas have not been made), the PIA sets out salient provisions, some of which have been highlighted below:



Frontier Basins in Nigeria

The NUPRC is vested with specific functions aimed at promoting the exploration and development of frontier basins;

the PIA established a Frontier Exploration Fund to be funded from 30% of NNPC Limited’s profit oil and profit gas in PSCs and RSCs.

where a commercial discovery is made, a frontier acreage may be reclassified as a general onshore area;



NNPC Limited is vested with right of first refusal in the award of an acreage where commercial discovery is made in a frontier acreage where it conducts testing and drilling on the request of the NUPRC because no commercial entity publicly expressed an intention of testing or drilling the prospect;

alongside deep offshore acreages, frontier basins enjoy 7.5% royalty rates and is exempted from royalty by price;

exemption from hydrocarbon tax;

The increase in crude oil discoveries in frontier basins witnessed in 2022 is projected to lead to a rise in the development of Nigeria’s reserves as well as facilitate the recognition of the host states as oil producing states in Nigeria, thus entitling them to the 13% derivation as provided in the Constitution.

A major development in frontier exploration in 2022 was the groundbreaking ceremony for the development of OPLs 809 and 810 (Assets), situated in Bauchi and Gombe States. The Assets, which are landlocked, would be developed through an integrated project that would include gas processing facilities, an independent power plant, and a crude oil refinery, which would enhance full utilization of field production. There are also indications that NNPC Limited will drill an oil well in Nasarawa state in March 2023.

Nigeria's Energy Transition Plan

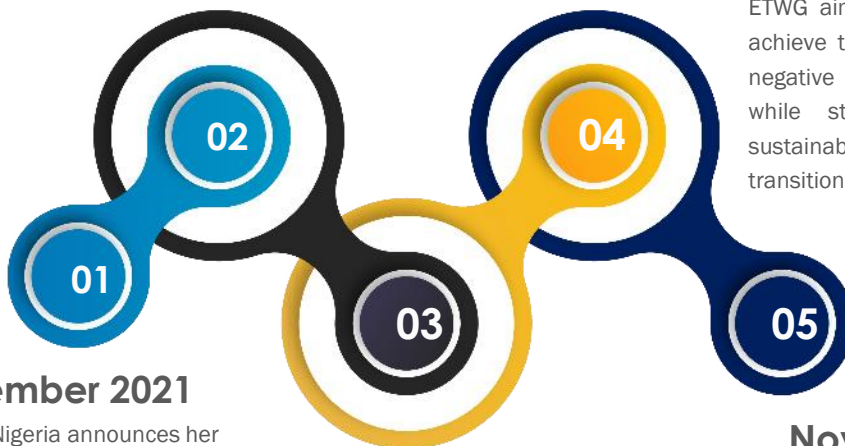


November 2021

Passage of the **Climate Change Act**.

August 2022

Establishment of an **Energy Transition Implementation Working Group (ETWG)** comprising several ministers and chaired by the Vice President of Nigeria - Prof. Yemi Osinbajo (SAN) with support from the Energy Transition Office (ETO). The ETWG aims to accelerate efforts to achieve the SDGs and mitigate the negative effects of climate change while strengthening international sustainable energy systems and just transitions.



November 2021

COP26: Nigeria announces her commitment to carbon neutrality by 2060.

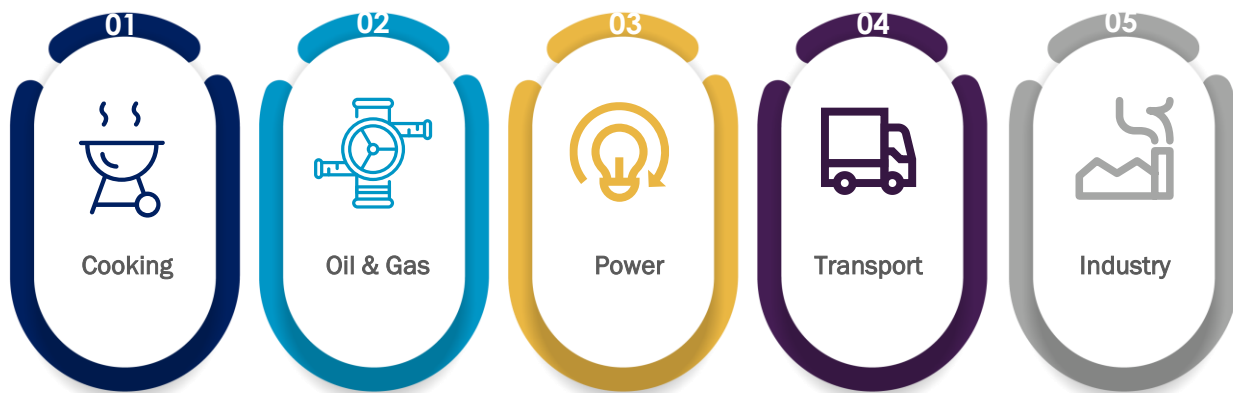
August 2022

Launch of **Nigeria's Energy Transition Plan (ETP)** - major pathway to achieve universal energy access by 2030 and a carbon-neutral economy by 2060.

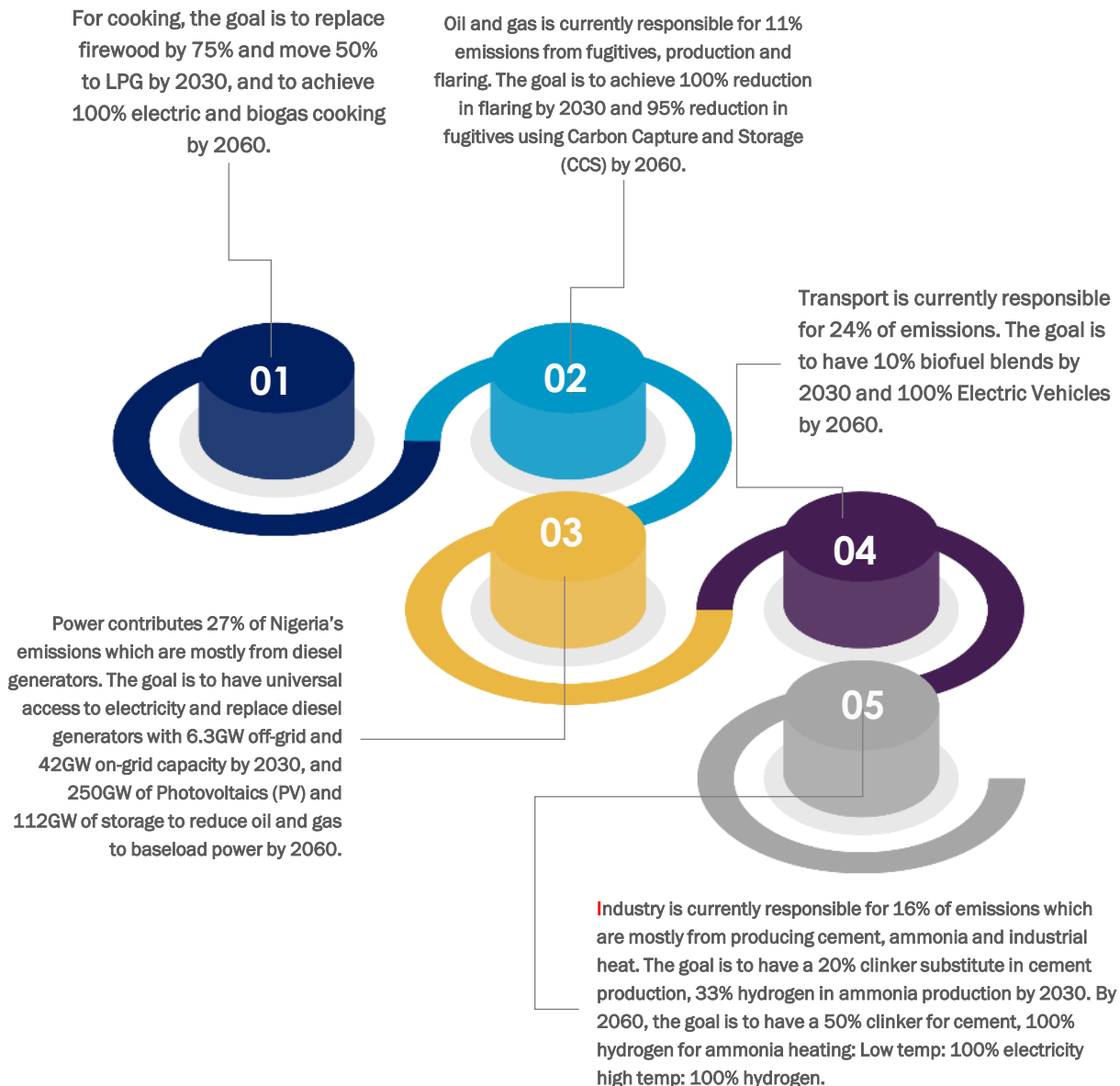
November 2022

COP27: Nigeria signed the new **Africa Sustainable Commodities Initiative Declaration**, which is a set of principles for the production of agricultural commodities in a way that protects natural resources.

The Nigerian ETP focuses on 5 (five) critical energy sectors:



The Nigerian ETP sets out the following timeline and framework for the attainment of emissions' reduction across the identified sectors:



Divestments



Upstream

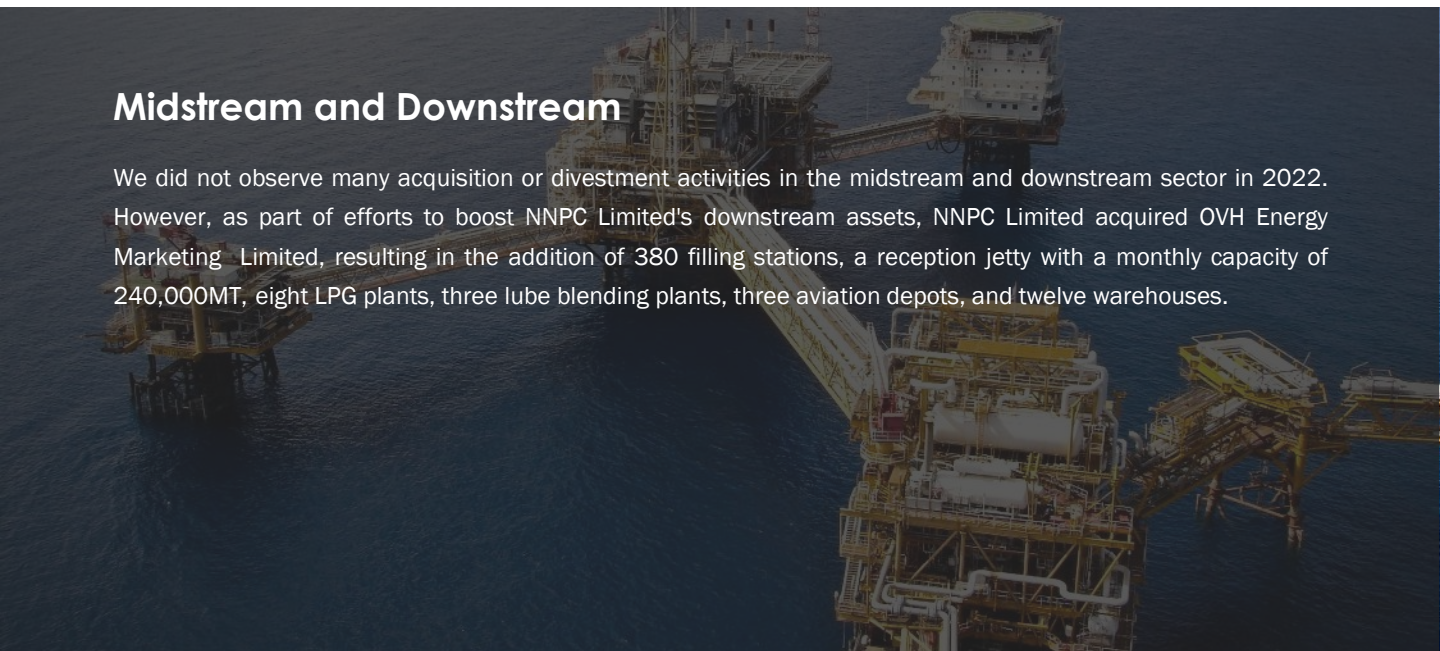
Our 2021 Wrap Up Report, featured a string of divestments of onshore and offshore upstream assets by some of the IOCs in 2021. This trend continued in 2022 with notable examples including, TotalEnergies planned divestment of its 10% minority interest in its joint venture with the NNPC, SPDC and Eni. There was also the termination of the PSC arrangement between NNPC and members of the Addax Group leading to the transfer of the operations to NNPC Limited.

These divestments continue to represent significant opportunities for indigenous oil companies in Nigeria

to increase their portfolio of assets, as well as for fresh entrants in the upstream oil and gas sector. Given the highly capital-intensive and technical nature of petroleum exploration and development, the key question that has arisen relates to the capacity of indigenous companies to rise to the challenge of operating and financing the upstream assets, some of which contain assets which have remained unproduced for years. The expectation is that with the right fundamentals, we would be able to replicate the achievements of the mainstream indigenous companies such as Seplat Energy Plc.

Midstream and Downstream

We did not observe many acquisition or divestment activities in the midstream and downstream sector in 2022. However, as part of efforts to boost NNPC Limited's downstream assets, NNPC Limited acquired OVH Energy Marketing Limited, resulting in the addition of 380 filling stations, a reception jetty with a monthly capacity of 240,000MT, eight LPG plants, three lube blending plants, three aviation depots, and twelve warehouses.



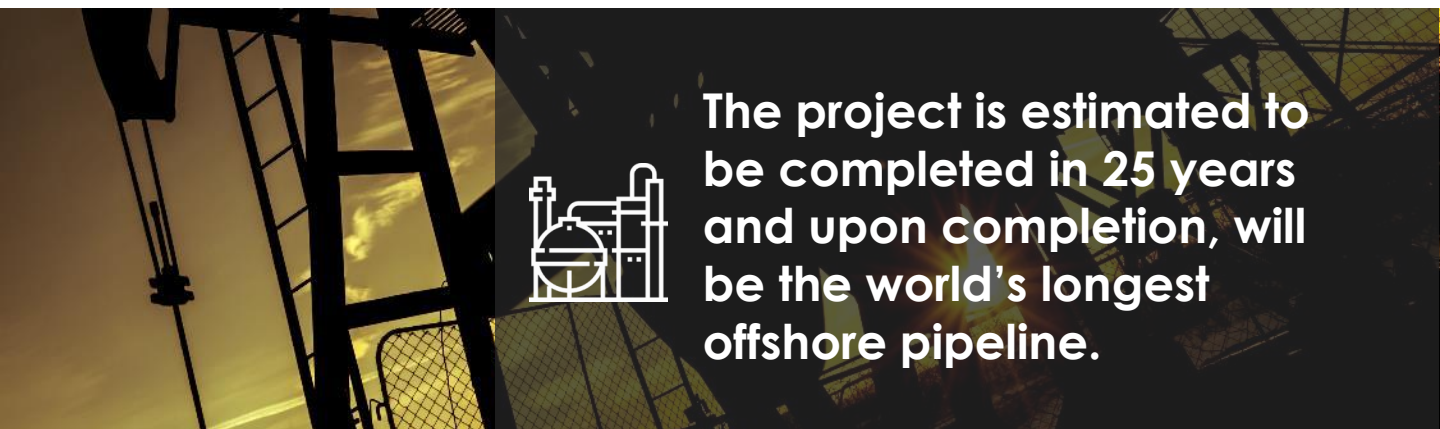
Notable Midstream Developments

Nigeria – Morocco Gas Pipeline Project



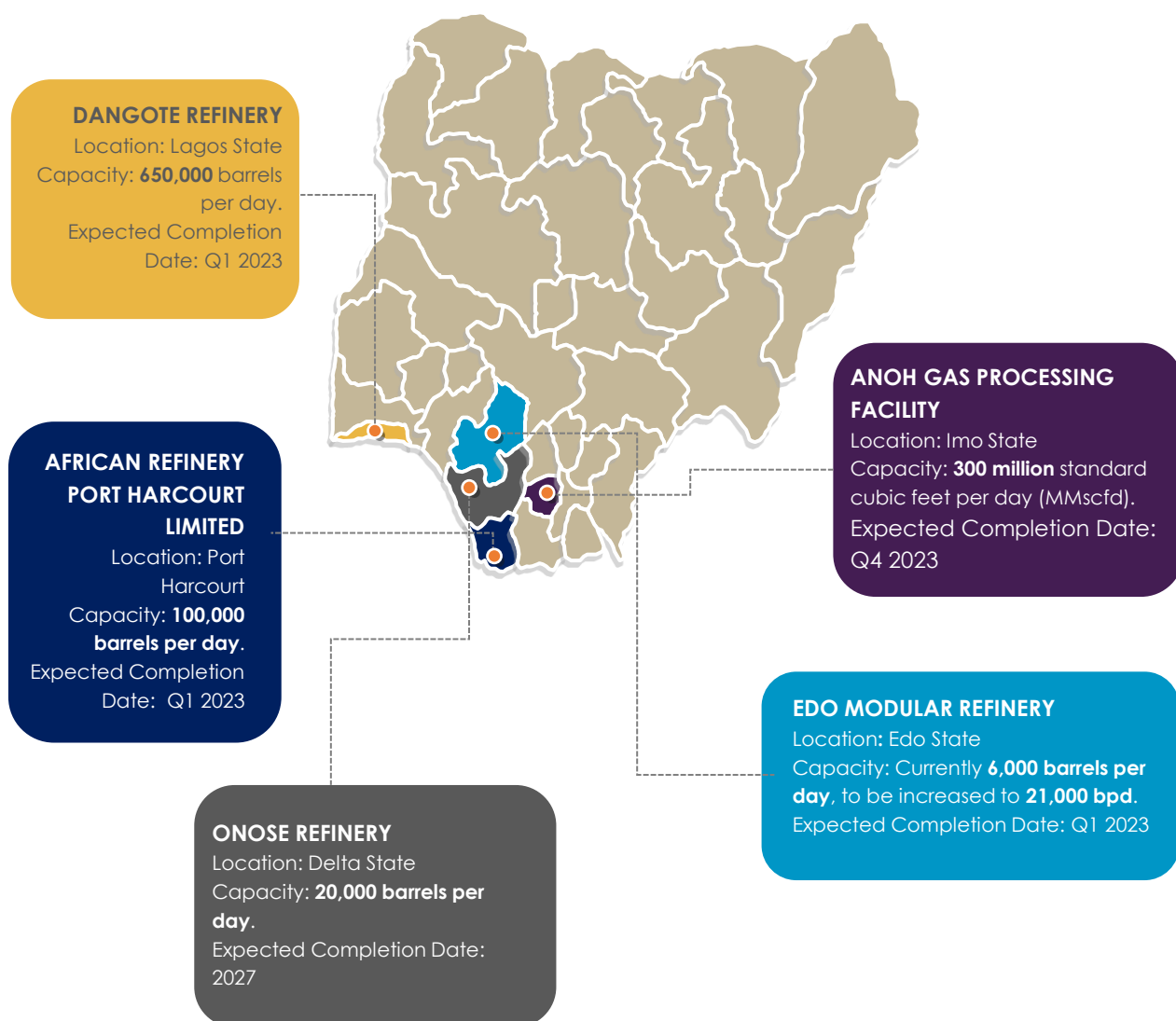
As part of ongoing efforts to harness Nigeria's vast natural gas resources, NNPC Limited and the Moroccan Office of Hydrocarbons and Mines (ONHYM) signed a Memoranda of Understanding with the ECOWAS Commission and five other national oil companies – Gambia, Ghana, Guinea, Guinea Bissau and Sierra Leone – on the Nigeria – Morocco 6000 km Gas Pipeline Project. The project, is expected to supply three billion standard cubic feet of gas per day to about 13 African countries along the Atlantic coast, including landlocked countries such as Niger, Burkina Faso and Mali, through to Morocco and subsequently to Europe.

The gas pipeline which will originate from Brass Island in Nigeria, will terminate in Northern Morocco, from where it will be connected to the Maghreb European Pipeline that connects to Spain. The project is estimated to be completed in 25 years and upon completion, will be the world's longest offshore pipeline. In addition to diversifying Nigeria's gas export routes and eliminating gas flaring in Nigeria, the project is also expected to create a viable regional electricity market, contribute to wealth creation and integration of economies within the region.



Other Midstream Projects

The infrastructure deficit in the midstream sector of the oil and gas industry has led to heavy reliance on importation of petroleum products in Nigeria notwithstanding the status of Nigeria as a major oil producing nation. However, there will be marked difference in this when several projects which are in various stages of development in the midstream sector of the oil and gas industry come on stream. These projects include:



The successful completion of these projects will boost the domestic supply and exportation of petroleum products and may also improve the prices of petroleum products in Nigeria. The Dangote Refinery in particular will position Nigeria as the largest crude oil refiner in Africa. Noticeably, a lot of these projects are private sector led, in partnership with the government. Thus, we anticipate that there will be more efficiency in the management of the projects upon completion.



The NMDPRA estimates that the NGFCP will unlock about **2000MW** of electricity annually, and about **600 tonnes** of LPG

National Gas Flare Commercialization Programme

In October 2022, the FGN relaunched the National Gas Flare Commercialization Programme (NGFCP), which was first launched in 2016 as one of the FG's initiatives to achieve zero routine gas flaring by 2035 and net zero emissions by 2060. The NGFCP is set to be the world's largest market driven, flare gas commercialisation programme, and will provide an opportunity for the FG to collaborate with industry players, local communities and other stakeholders to address the issue of gas flaring by monetizing associated natural gas.

The NMDPRA estimates that the NGFCP will unlock about 2000MW of electricity annually, and about 600 tonnes of LPG, which will provide clean energy to over 6 million households, while eliminating carbon emissions. In October, the NUPRC issued a 'Request for Qualification' for competent third-party investors with proven technical and commercial capacity to convert flared gas to a useful resource, to bid to participate in the programme.

In January 2023, the successful applicants who will proceed to the request for proposal phase were announced and it is expected that the award of licences to successful bidders will take place imminently.

Part III:

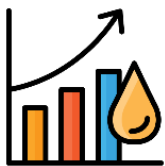
2023 Forward Look



Global Crude Oil and Gas Market



The US Energy Information Administration (EIA) in January 2023, forecasted an average Brent crude price of \$83 per barrel in 2023, with WTI averaging \$77 per barrel. The EIA foresees both OPEC and non-OPEC oil production, most notably in the US, outpacing global oil consumption thus leading to decreasing oil prices in the second half of 2023.



There are however more ambitious forecasts by analysts at Capitol.com who expect 2023 Brent prices to average \$115/bbl while the Bank of America forecast that Brent prices will average \$100/bbl in 2023. Enverus Intelligence Research (EIR) expects near-term recession concerns and oil price weakness to not obscure a tight supply outlook for 2023, and forecasts Brent pinned above \$100/bbl on the back of OPEC supply management and EU sanctions on Russian exports. However, as at the first week of March 2023, Oil prices hovered around \$76.



The impact of Russia's curtailment of gas supply to Europe would also continue to be felt in 2023 with high international gas prices, disrupted trade flows and fuel shortages in some emerging and developing economies. The IEA forecasts that Europe's LNG imports will increase by over 60 BCM this year, keeping international LNG trade under strong pressure for the short- to medium-term. Increases in natural gas investment are therefore expected in 2023.

Nigerian Upstream Sector

01

Politics and Upstream Transactions

With the conclusion of the 2023 Presidential and Gubernatorial elections, it is projected that the transition from one administration to another, might result in a slight lull in the pace of both regulatory decision making and investment decisions, at least in the first and second quarters of the year. However, we expect that activities would pick up fairly quickly afterwards. We also do not envisage that there would be undue interruptions to ongoing projects.

02

Regulatory Landscape

The ripples of the change in legal and regulatory landscape will continue to be felt with the issuance of new regulations and guidelines. We envisage continued engagement between key regulators and industry stakeholders on the new legal regime, as well as possible disputes arising from the implementation of the new legal framework.

03

Conversion to PIA Regime

With the expiration of the February 2023 deadline, all holders of OPLs and OMLs under the Petroleum Act who had elected not to voluntarily convert their existing OPLs and OMLs to PPLs or PMLs would have to wait out the expiration of their respective OPLs and OMLs before they can migrate to the PIA regime. For companies undertaking vertically integrated upstream, midstream, and downstream operations in one entity, it is expected that they would have taken steps to separate these operations into different entities in accordance with the PIA.

04

Upstream Transactional Activities

Activities such as the ongoing offshore mini-bid round and the award of PPLs to marginal field bidders would contribute to the transaction count in the upstream sectors, with increased strategic alliances, financing and operating arrangements etc. The upswing in upstream activities would also have a positive impact on the oil services market, with anticipated increase in drilling and other operations required to commence production from the assets.



05

Exploration & Appraisal Activities

More exploration and appraisal activities are expected, especially in the frontier basins, driven by NNPC Limited's goal to increase its reserves and ultimately, production. We also expect that the ongoing acquisitions of upstream assets would lead to increased development and production activities, which would in turn, also contribute to increased rig counts, amongst others.

06

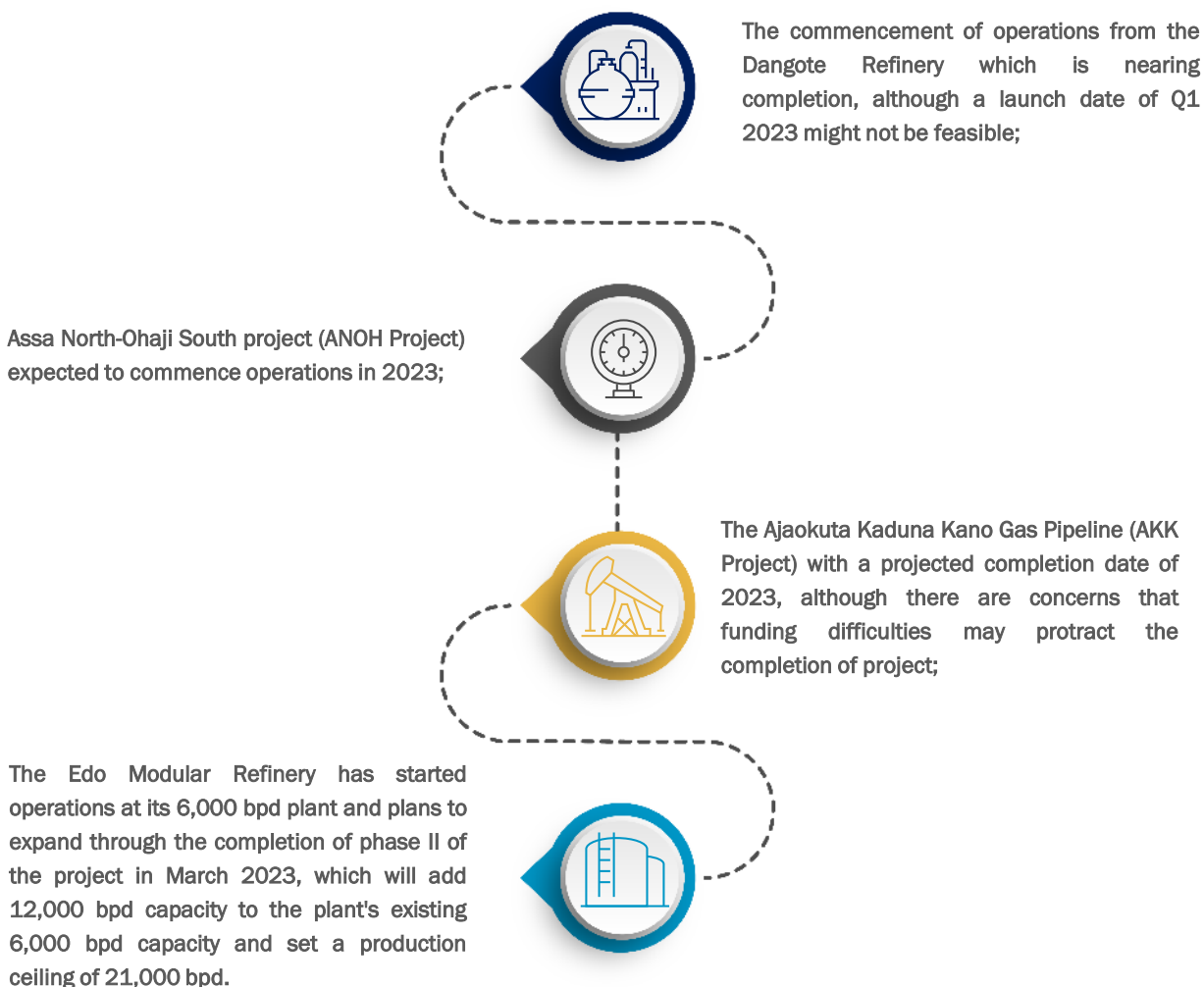
Oil & Gas Production In 2023

Despite Nigeria's inability to meet its OPEC production quota of 1.8million barrels per day in 2022, the Nigerian authorities project that oil and gas production in 2023 would increase to 1.6 million bpd from the first quarter of 2023. This will be driven in part by current efforts to address illegal diversion of crude as well as inefficiencies in measuring production. However, Economist Intelligence has a more conservative estimate of 1.3 million bpd.



Nigerian Midstream Sector

Key events that will drive midstream oil and gas operations in Nigeria include:



Nigerian Downstream Sector

The downstream sector where the FG has retained some form of price control, is expected to receive a boost with the planned phased removal of the government subsidy on some refined petroleum products. While it is projected that the removal of the subsidies and price controls would encourage more entrants into what would now be a largely market driven downstream sector, the NMDPRA has projected the price of PMS to rise as high as N443 per litre for the year 2023/24 in the open market.

It is projected that there will be increased petroleum products supply in Nigeria and, by extension, West Africa, optimization of cost of operations normally incurred at the Apapa ports, and a consequent reduction in pump prices of petroleum products in connection with the commissioning in 2022 of the Pinnacle Oil and Gas Limited's single point mooring facility (SPM) and the conventional buoy mooring facility (CBM) within the Lekki Free Trade Zone.

G L O S S A R Y

ACMI	African Carbon Market Initiative
AGO	Automotive Gas Oil
ANOH Project	Assa North-Ohaji South Project
ARPHL	African Refineries Port Harcourt Limited
BCM	Billion cubic metres
BPD	Barrels per day
CAMA	Companies and Allied Matters Act 2020 (as amended)
CO ₂	Carbon dioxide
COP27	27th edition of the Conference of the Parties at the 2022 United Nations Climate Change Conference
Corporation	Nigerian National Petroleum Corporation
ECOWAS	Economic Community of West African States
EIA	Energy Information Administration
EIR	Enverus Intelligence Research
ESG	Environmental, Social and Governance
ETO	Energy Transition Office
ETP	Energy Transition Plan
ETIWG	Energy Transition Implementation Working Group
EU	European Union
FGN	Federal Government of Nigeria
IEA	International Energy Agency
IOCs	International Oil Companies
ISP	Integrated Strategic Project
JOA	Joint Operating Agreement
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
MT	Metric Tonnes
NGFCP	National Gas Flare Commercialization Programme
NMDPRA	Nigerian Midstream and Downstream Petroleum Regulatory Authority
NNPC Limited	Nigerian National Petroleum Company Limited
NPDC	Nigerian Petroleum Development Company Ltd
NUPRC	Nigerian Upstream Petroleum Regulatory Commission
OML	Oil Mining Lease
ONHYM	Moroccan Office of Hydrocarbons and Mines
OPEC	Organisation of Petroleum Exporting Countries
OPL	Oil Prospecting License
PIA	Petroleum Industry Act 2021
PML	Petroleum Mining Lease
PMS	Premium Motor Spirit
PPL	Petroleum Prospecting License
PSC	Production Sharing Contract
SPDC	Shell Petroleum Development Company
WTI	West Taxes Intermediate

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